Condensed consolidated interim financial statements of

Mandalay Resources Corporation

March 31, 2012
(Unaudited)

Mandalay Resources Corporation

March 31, 2012

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Mandalay Resources Corporation

Condensed consolidated interim statements of (loss) income three months ended March 31,

(Expressed in U.S. dollars)
(Unaudited)

	2012	2011
	$	$
Revenues	**20,719,516**	16,609,053
Cost of operations		
Cost of sales excluding depletion and depreciation	**11,828,620**	7,505,528
Depletion and depreciation	**4,063,613**	2,876,310
	15,892,233	10,381,838
Income from mine operations	**4,827,283**	6,227,215
Expenses		
Administration	**2,764,888**	1,399,220
Share-based compensation (Note 9 (b))	**368,102**	389,439
(Gain) on disposal of property, plant and equipment	**-**	(323,467)
	3,132,990	1,465,192
Income from operations	**1,694,293**	4,762,023
Other income (expenses)		
Loss on derivative financial instruments (Note 11)	**(10,857,634)**	(977,700)
Interest and other income	**70,420**	38,370
Finance costs (Notes 10)	**(1,205,448)**	(984,448)
Foreign exchange loss	**(140,867)**	(431,005)
	(12,133,529)	(2,354,783)
(Loss) income before income taxes	**(10,439,236)**	2,407,240
Income tax recovery		
Current	**-**	-
Deferred	**1,518,592**	-
Net (loss) income for the period	**(8,920,644)**	2,407,240
(Loss) income per share (Note 12)		
Basic	**(0.03)**	0.01
Diluted	**(0.03)**	0.01
Weighted average number of common shares outstanding (Note 12)		
Basic	**270,221,988**	216,781,352
Diluted	**270,221,988**	267,864,370

See accompanying notes to the condensed consolidated interim financial statements.

Mandalay Resources Corporation

Condensed consolidated interim statements of comprehensive (loss) income three months ended March 31,

(Expressed in U.S. dollars)
(Unaudited)

	2012	2011
	$	$
Net (loss) income for the period	**(8,920,644)**	2,407,240
Other comprehensive income		
Exchange differences on translating foreign operations	**109,392**	726,720
Comprehensive (loss) income for the period	**(8,811,252)**	3,133,960

See accompanying notes to the condensed consolidated interim financial statements.

Mandalay Resources Corporation
Condensed consolidated interim statements of financial position
(Expressed in U.S. dollars)
(Unaudited)

	March 31, 2012	December 31, 2011
	$	$
Assets		
Current assets		
Cash and cash equivalents	**10,620,189**	12,741,454
Trade and other receivables (Note 4)	**8,493,902**	11,225,321
Inventories (Note 5)	**16,301,887**	12,401,401
Prepaid expenses and other	**574,962**	290,657
Derivative financial instruments (Note 11)	**4,968,533**	16,253,768
Total current assets	**40,959,473**	52,912,601
Non-current assets		
Reclamation and other deposits	**2,459,700**	2,431,941
Property, plant and equipment (Note 6)	**87,242,937**	79,099,451
Deferred tax asset	**5,969,457**	4,450,865
Total non-current assets	**95,672,094**	85,982,257
Total assets	**136,631,567**	138,894,858
Liabilities		
Current liabilities		
Trade and other payables (Note 7)	**13,020,823**	13,320,759
Current portion of long-term debt (Note 8)	**13,658,902**	10,004,691
Provisions	**4,130,925**	1,408,666
Total current liabilities	**30,810,650**	24,734,116
Non-current liabilities		
Long-term debt (Note 8)	**1,478,725**	254,333
Reclamation and site closure costs	**13,710,179**	13,830,271
Provisions	**72,533**	1,105,172
Total non-current liabilities	**15,261,437**	15,189,776
Total liabilities	**46,072,087**	39,923,892
Equity		
Share capital (Note 9)	**79,904,245**	79,665,838
Share option reserve (Note 9)	**7,038,897**	6,796,248
Warrants reserve (Note 9)	**4,538,344**	4,543,207
Foreign currency translation reserve	**1,783,807**	1,674,415
Retained earnings	**(2,705,813)**	6,291,258
Total equity	**90,559,480**	98,970,966
Total liabilities and equity	**136,631,567**	138,894,858

Approved and authorized for issue by the Board on May 8, 2012

(Signed) Bradford A. Mills
Bradford A. Mills, Director

(Signed) Braam Jonker
Braam Jonker, Director

See accompanying notes to the condensed consolidated interim financial statements.

Mandalay Resources Corporation

Condensed consolidated interim statements of changes in equity
three months ended March 31,

(Expressed in U.S. dollars)
(Unaudited)

	Number of shares issued	Share capital	Share option reserve	Warrants reserve	Foreign currency translation reserve	Deficit	Total equity
		$	$	$	$	$	$
Balance, December 31, 2010	215,178,788	59,233,056	5,573,759	6,019,794	3,482,688	(12,024,086)	62,285,211
Warrants exercised (Note 9 (c))	53,960,287	19,748,064	-	(1,476,587)	-	-	18,271,477
Stock options exercised (Note 9 (a))	1,487,500	817,048	(419,918)	-	-	-	397,130
Normal course issuer bid (Note 9 (d))	(449,500)	(132,330)	-	-	-	(161,973)	(294,303)
Share-based compensation (Note 9 (b))	-	-	1,642,407	-	-	-	1,642,407
Total comprehensive (loss) income for the year	-	-	-	-	(1,808,273)	18,477,317	16,669,044
Balance, December 31, 2011	270,177,075	79,665,838	6,796,248	4,543,207	1,674,415	6,291,258	98,970,966
Warrants exercised (Note 9 (c))	145,000	72,878	-	(4,863)	-	-	68,015
Stock options exercised (Note 9 (a))	394,500	226,174	(125,453)	-	-	-	100,721
Normal course issuer bid (Note 9 (d))	(206,000)	(60,645)	-	-	-	(76,427)	(137,072)
Share-based compensation (Note 9 (b))	-	-	368,102	-	-	-	368,102
Total comprehensive income for the period	-	-	-	-	109,392	(8,920,644)	(8,811,252)
Balance, March 31, 2012	**270,510,575**	**79,904,245**	**7,038,897**	**4,538,344**	**1,783,807**	**(2,705,813)**	**90,559,480**

	Number of shares issued	Share capital	Share option reserve	Warrants reserve	Foreign currency translation reserve	Deficit	Total equity
		$	$	$	$	$	$
Balance, December 31, 2010	215,178,788	59,233,056	5,573,759	6,019,794	3,482,688	(12,024,086)	62,285,211
Warrants exercised (Note 9 (c))	2,894,574	773,832	-	(64,610)	-		709,222
Stock options exercised (Note 9 (a))	375,000	228,140	(116,560)	-	-		111,580
Share-based compensation (Note 9 (b))	-	-	389,439	-	-	-	389,439
Total comprehensive income for the period	-	-	-	-	726,720	2,407,240	3,133,960
Balance, March 31, 2011	218,448,362	60,235,028	5,846,638	5,955,184	4,209,408	(9,616,846)	66,629,412

Mandalay Resources Corporation

Condensed consolidated interim statements of cash flows
three months ended March 31,

(Expressed in U.S. dollars)
(Unaudited)

	2012	2011
	$	$
Operating activities		
Net (loss) income for the period	**(8,920,644)**	2,407,240
Adjustments to reconcile income to net cash used by operating activities		
Gain on disposal of property, plant and equipment	**-**	(323,467)
Depletion and depreciation	**4,071,748**	2,886,437
Share-based compensation	**368,102**	389,439
Foreign exchange loss	**(92,759)**	223,761
Finance costs	**1,205,448**	984,448
Loss on derivative financial instrument	**10,857,634**	977,200
Interest and other income	**(70,420)**	(38,370)
Deferred tax	**(1,518,592)**	-
Change in non-cash operating working capital items		
Trade and other receivables	**2,767,570**	(3,196,519)
Inventories	**(3,895,803)**	(4,482,027)
Prepaid expenses and other	**(284,050)**	(270,100)
Trade and other payables	**486,766**	2,723,083
Provisions	**646,845**	473,809
Cash generated from operations	**5,621,845**	2,754,934
Interest paid	**(283,995)**	(171,593)
Interest received	**70,420**	38,370
Net cash flows from operating activities	**5,408,270**	2,621,711
Investing activities		
Expenditure for property, plant and equipment	**(9,863,990)**	(6,101,242)
Payment for reclamation	**(372,073)**	(392,441)
Increase in reclamation deposit and others	**-**	(1,809)
Proceeds on disposal of property, plant and equipment	**-**	397,255
Payment for derivative financial instrument	**-**	(1,968,234)
Proceeds from derivative financial instrument	**427,600**	-
Net cash flows used in investing activities	**(9,808,463)**	(8,066,471)
Financing activities		
Borrowings	**2,998,300**	4,993,888
Repayment of borrowings	**(867,715)**	-
Issuance of common shares for cash	**168,736**	845,576
Purchase of common shares for cancellation	**(137,072)**	-
Net cash flows from financing activities	**2,162,249**	5,839,464
Effects of exchange rate changes on the balance of cash held in foreign currencies	**116,679**	233,565
(Decrease) increase in cash and cash equivalents	**(2,121,265)**	628,269
Cash and cash equivalents, beginning of period	**12,741,454**	14,922,778
Cash and cash equivalents, end of period	**10,620,189**	15,551,047
Cash and cash equivalents are comprised of		
Cash	**7,261,552**	7,602,800
Cash equivalents	**3,358,637**	7,948,247
	10,620,189	15,551,047

See accompanying notes to the condensed consolidated interim financial statements.

1. Description of business and nature of operations

Mandalay Resources Corporation ("Mandalay" or the "Company") and its wholly-owned subsidiaries is a gold, silver and antimony producer engaged in mining and related activities including acquisition, exploration, extraction, processing and reclamation. Mandalay's assets are comprised of the Costerfield gold and antimony mine in Australia, the Cerro Bayo silver and gold mine as well as other exploration projects in Chile.

Mandalay is incorporated in British Columbia, Canada. The Company's shares are listed on the Toronto Stock Exchange ("TSX"). The head office and principal address of the Company is 76 Richmond Street East, Suite 330, Toronto, Canada, M5C 1P1. The Company's registered office is located at 1900 - 355 Burrard Street, Vancouver, British Columbia, V6C 2G8.

2. Basis of preparation

These unaudited condensed consolidated interim financial statements, including comparatives, have been prepared using accounting policies consistent with International Financial Reporting Standards ("IFRS") and in accordance with International Accounting Standard ("IAS") 34 *Interim Financial Reporting*.

The preparation of financial statements requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, and revenue and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and further periods if the review affects both current and future periods.

Judgments made by management in the application of IFRS that have a significant effect on the financial statements and estimates with a significant risk of material adjustment in the current and following fiscal years.

3. Summary of significant accounting policies

The preparation of financial data is based on accounting principles and practices consistent with those used in the preparation of the audited annual financial statements as at December 31, 2011. The accompanying unaudited consolidated interim financial statements should be read in conjunction with the Company's audited consolidated financial statements for the year ended December 31, 2011.

New accounting pronouncement

(a) Application of new and revised International Financial Reporting Standards

Effective January 1, 2012, the Company adopted a revised International Financial Reporting Standards ("IFRSs") that was issued by the International Accounting Standards Board ("IASB"). The application of this new and revised IFRS has not had any material impact on the amounts reported for the current and prior years but may affect the accounting for future transactions or arrangements.

3. Summary of significant accounting policies (continued)

(a) Application of new and revised International Financial Reporting Standards (continued)

(i) Amendments to IFRS 7 Financial Instruments: Disclosures

Increase in disclosure with regards to the transfer of financial assets, especially if there is a disproportionate amount of transfer transactions that take place around the end of a reporting period.

(b) Accounting standards issued but not yet effective

(i) Effective for annual periods beginning on or after July 1, 2012

Amended standard IAS 1 Presentation of Financial Statements

The amendment to IAS 1 revises the presentation of other comprehensive income.

(ii) Effective for annual periods beginning on or after January 1, 2013

- Amended standard IFRS 7 *Financial Instruments: Disclosures*

  The amendment to IFRS 7 enhances the disclosure required when offsetting financial assets and liabilities.

- New standard IFRS 10 *Consolidated Financial Statements*

  IFRS 10 outlines the principles for the presentation and preparation of consolidated financial statements.

- New standard IFRS 11 *Joint Arrangements*

  IFRS 11 defines the two types of joint arrangements (joint operations and joint ventures) and outlines how to determine the type of joint arrangement entered into and the principles for accounting for each type of joint arrangement.

- New standard IFRS 12 *Disclosure of Interests in Other Entities*

  IFRS 12 outlines the disclosures required in order to provide users of financial statements with the information necessary to evaluate an entity's interest in other entities, the corresponding risks related to those interests and the effects of those interests on the entity's financial position, financial performance and cash flows.

- New standard IFRS 13 *Fair Value Measurement*

  IFRS 13 defines fair value, summarizes the methods of determining fair value and outlines the required fair value disclosures. IFRS 13 is utilized when another IFRS standard requires or allows fair value measurements or disclosures about fair value measurements.

3. Summary of significant accounting policies (continued)

(b) Accounting standards issued but not yet effective (continued)

(ii) Effective for annual periods beginning on or after January 1, 2013 (continued)

- New interpretation IFRIC Interpretation 20 *Stripping Costs in the Production Phase of a Surface Mine*

  IFRIC Interpretation 20 summarizes the method of accounting for waste removal costs incurred as a result of surface mining activity during the production phase of a mine.

- Amended standard IAS 19 *Employee Benefits*

  IAS 19 outlines the accounting treatment and required disclosures for employee benefits. The amendments applicable to the Company consist of modification of the accounting treatment for termination benefits and the clarification of miscellaneous issues including the classification of employee benefits.

- Amended standard IAS 27 *Separate Financial Statements*

  IAS 27 outlines the accounting principles to be applied with regards to investments in subsidiaries, joint ventures and associates when an entity elects or is required by local regulations to present separate, non-consolidated, financial statements. The previous standard was titled IAS 27 Consolidated and Separate Financial Statements.

- Amended standard IAS 28 *Investments in Associates and Joint Ventures*

  IAS 28 outlines the accounting treatment and corresponding application of the equity method of accounting in investments in associates and joint ventures. The previous standard was titled IAS 28 Investments in Associates.

(iii) Effective for annual periods beginning on or after January 1, 2014

- Amended standard IAS 32 *Financial Instruments: Presentation*

  The amendments to IAS 32 pertained to the application guidance on the offsetting of financial assets and financial liabilities.

(iv) Effective for annual periods beginning on or after January 1, 2015

- Amended standard IFRS 7 *Financial Instruments: Disclosures*

  The amendments to IFRS 7 outlines the disclosures required when initially applying IFRS 9 Financial Instruments.

- New standard IFRS 9 *Financial Instruments*

  Partial replacement of IAS 39 Financial Instruments: Recognition and Measurement

(Expressed in U.S. dollars)

3. Summary of significant accounting policies (continued)

The Company has not early adopted these new and amended standards and is currently assessing the impact that these standards will have on the consolidated financial statements. IFRS 10, IFRS 11, IAS 27 and IAS 28 cannot be early adopted on a stand-alone basis and may only be early adopted as a group along with IFRS 12. Early adoption must be disclosed.

IFRS 12 disclosure is encouraged prior to adoption of the standard. This early disclosure does not require the entity to apply IFRS 10, IFRS 11, IAS 27 or IAS 28. IFRS 13 may be early adopted on a stand-alone basis so long as this fact is disclosed and the standard is applied prospectively as at the beginning of the annual reporting period in which the standard is initially applied.

4. Trade and other receivables

Trade and other receivables are comprised of the following:

	March 31, 2012	December 31, 2011
	$	$
Value added tax and other indirect tax receivables	**2,722,648**	3,172,674
Trade receivables	**5,241,596**	7,720,331
Other receivables	**529,658**	332,316
	8,493,902	11,225,321

The allowance for doubtful accounts was $Nil at March 31, 2012 and December 31, 2011, respectively.

During the three month period ended March 31, 2012, the Company received $1.0 million value added tax from the Chilean tax authority, which was acquired as part of the Cerro Bayo acquisition in 2010. With this receipt, the Company has collected all value added tax refunds acquired as part of this acquisition.

5. Inventories

	March 31, 2012	December 31, 2011
	$	$
Finished goods	**7,509,832**	5,315,421
Work in progress	**2,785,806**	870,558
Consumables	**6,006,249**	6,215,422
	16,301,887	12,401,401

The amount of inventories recognized in cost of sales for three months ended March 31, 2012 was $15,892,233 (2011 - $10,381,838).

There were no write-downs or reversals of write-downs during the three months ended March 31, 2012 or 2011.

(Expressed in U.S. dollars)

6. Property, plant and equipment

Property, plant and equipment consist of the following:

	Mining interests		Plant and equipment			Exploration and evaluation			Total
	Costerfield	Cerro Bayo	Costerfield	Cerro Bayo	Others	Costerfield	Cerro Bayo	Others	$
	$	$	$	$	$	$	$	$	
Cost									
As at December 31, 2010	15,127,566	13,326,943	13,693,863	10,247,799	92,862	1,120,578	584,847	9,888,012	64,082,470
Additions	6,160,012	14,481,737	5,491,977	3,880,364	88,236	2,774,475	506,179	1,754,268	35,137,248
Disposals	-	(2,433)	(1,681,419)	(522,958)	(65,838)	-	-	-	(2,272,648)
Impairment	-	-	-	-	-	-	-	-	-
Foreign exchange	(1,128,586)	-	(285,025)	-	68,515	(32,368)	-	(192,645)	(1,570,109)
As at December 31, 2011	20,158,992	27,806,247	17,219,396	13,605,205	183,775	3,862,685	1,091,026	11,449,635	95,376,961
Additions	1,986,706	3,235,290	2,653,351	1,061,486	-	1,064,582	590,887	1,384,169	11,976,471
Disposals	-	-	-	-	-	-	-	-	-
Reclassification to mining interest	2,589,475	-	-	-	-	(2,589,475)	-	-	-
Foreign exchange	27,813	-	159,957	-	3,248	71,394	-	191,970	454,382
As at March 31, 2012	24,762,986	31,041,537	20,032,704	14,666,691	187,023	2,409,186	1,681,913	13,025,774	107,807,814
Accumulated depreciation									
As at December 31, 2010	1,839,641	-	1,921,139	377,188	20,806	-	-	-	4,158,774
Expense	2,976,699	4,381,186	1,673,530	4,213,845	48,486	-	-	-	13,293,746
Disposals	-	-	(426,361)	(493,756)	(10,343)	-	-	-	(930,460)
Impairment	-	-	-	-	-	-	-	-	-
Foreign exchange	(139,840)	-	(103,435)	-	(1,275)	-	-	-	(244,550)
As at December 31, 2011	4,676,500	4,381,186	3,064,873	4,097,277	57,674	-	-	-	16,277,510
Expense	825,997	1,897,033	453,593	1,045,930	9,575	-	-	-	4,232,128
Disposals	-	-	-	-	-	-	-	-	-
Foreign exchange	27,317	-	26,863	-	1,059	-	-	-	55,239
As at March 31, 2012	5,529,814	6,278,219	3,545,329	5,143,207	68,308	-	-	-	20,564,877
Carrying value									
As at December 31, 2010	13,287,925	13,326,943	11,772,724	9,870,611	72,056	1,120,578	584,847	9,888,012	59,923,696
As at December 31, 2011	15,482,492	23,425,061	14,154,523	9,507,928	126,101	3,862,685	1,091,026	11,449,635	79,099,451
As at March 31, 2012	19,233,172	24,763,318	16,487,375	9,523,484	118,715	2,409,186	1,681,913	13,025,774	87,242,937

For three months ended March 31, 2012, Cerro Bayo's plant and equipment depreciation of $160,378 was capitalized in mining interest (2011 - $259,848).

(Expressed in U.S. dollars)

7. Trades and other payables

	March 31, 2012	December 31, 2011
	$	$
Trade payables	**7,605,326**	7,752,970
Accrued liabilities	**4,062,424**	3,851,276
Payroll and other taxes payable	**312,003**	772,841
Payable to Coeur for VAT refund (Notes 4)	**1,041,070**	943,672
	13,020,823	13,320,759

The average credit period of purchase is one month.

8. Long-term debt

Long-term debt consists of the following:

	Interest rate	Maturity	March 31, 2012	December 31, 2011
	%		$	$
Current				
Equipment loan (a)	7.86 to 9.93	2012	**1,209,691**	718,377
Sprott loan (b)	11.00	2012	**9,577,370**	7,183,811
Silver contract (c)	-	2012	**1,871,741**	2,102,503
BCI Loan (d)	3.6	2012	**1,000,100**	-
			13,658,902	10,004,691
Non-current				
Equipment loan (a)	7.86 to 9.93	2013 - 2014	**1,478,725**	254,333
			1,478,725	254,333
			15,137,627	10,259,024

(a) Equipment loans are secured by the applicable equipment they are financing.

(b) In December 2010, the Company entered into a loan agreement with Sprott Resource Lending Partnership ("Sprott") in the amount of $10,054,000 (C$10,000,000) bearing interest at a rate of 11% and maturing on December 17, 2012. The loan is secured by certain assets of the Company. The Company drew down the first tranche of the loan of C$5,000,000 by December 31, 2010, net of the arrangement fee of $100,540 (C$100,000). The Company also issued 1,885,938 common shares to Sprott and incurred $467,266 in loan issue costs. These transaction costs are netted against the loan balance. The Company is required to prepay portions of the loan upon certain financing transactions occurring prior to maturity of the loan. In February 2011 the Company drew down the second tranche of the loan of $5,027,000 (C$5,000,000). On this second tranche loan, the Company incurred $757,086 (C$734,038) in loan issue costs.

(Expressed in U.S. dollars)

8. Long-term debt (continued)

(c) Upon the acquisition of Cerro Bayo in 2010, the Company entered into an agreement with the vendor of Cerro Bayo whereby the Company makes future cash payments in an aggregate amount equal to the U.S. dollar equivalent of 125,000 ounces of silver to be paid in six quarterly instalments commencing in Q3 2011 and ending in Q4 2012 ("Silver Contract"). As at March 31, 2012, the Company paid the quarterly instalment of the Silver Contract of $651,292 based on the silver market price. The Company adjusted the silver contract to $1,871,741 as at March 31, 2012 based on the updated forecast silver prices and time values, resulting in a fair value measurement loss of $420,529 for three months ended March 31, 2012.

(d) In March 2012, Cerro Bayo borrowed $1,000,100 from Banco Credito Inversiones ("BCI"). The loan is non-secured, bears interest at a rate of 3.68% and matures at May 29, 2012.

Repayment of long-term debt required in each of the next four years are as follows:

	Equipment loans	Sprott loan	Silver contract	BCI loan	Total
	$	$	$	$	$
2012	963,604	10,025,000	1,871,741	1,000,100	13,860,445
2013	895,197	-	-	-	895,197
2014	707,123	-	-	-	707,123
2015	122,492	-	-	-	122,492
	2,688,416	10,025,000	1,871,741	1,000,100	15,585,257

9. Share capital

At March 31, 2012, the Company had unlimited authorized common shares and 270,510,575 common shares outstanding (December 31, 2011 - 270,177,075 common shares). All outstanding shares are fully paid.

(a) Stock options

The Company has established a "rolling" stock option plan (the "Plan") in compliance with the TSX's policy for granting stock options. Under the Plan, the maximum number of shares reserved for issuance may not exceed 10% of the total number of issued and outstanding common shares. The exercise price of each option shall not be less than the market price of the Company's stock at the date of grant. Options generally vest over three years and have a maximum term of seven years from date of grant.

(Expressed in U.S. dollars)

9. Share capital (continued)

(a) Stock options (continued)

	Number of options	Weighted average exercise price
		C$
Balance, January 1, 2011	10,100,946	0.27
Granted	5,748,750	0.58
Forfeited	(463,750)	0.24
Expired	(187,480)	0.50
Exercised	(1,487,500)	0.27
Balance, December 31, 2011	13,710,966	0.40
Granted	4,092,500	0.83
Exercised	(394,500)	0.26
Balance, March 31, 2012	**17,408,966**	**0.50**

The following table summarizes information about the stock options outstanding at March 31, 2012:

Options outstanding			Options exercisable	
Number of stock options outstanding	Weighted average remaining contractual life (years)	Weighted average exercise price	Number of options exercisable	Weighted average exercise price
		C$		C$
450,000	4.26	0.76	-	0.76
470,000	4.03	0.58	-	0.58
3,965,000	3.95	0.56	-	0.56
264,380	0.99	0.50	264,380	0.50
355,000	3.82	0.42	177,500	0.42
100,000	3.46	0.34	75,000	0.34
300,000	3.52	0.33	225,000	0.33
50,000	3.44	0.31	37,500	0.31
1,502,500	3.41	0.26	1,126,873	0.26
5,369,586	2.69	0.26	5,369,586	0.26
490,000	4.67	0.70	-	0.70
4,092,500	4.94	0.83	-	0.83
17,408,966	3.72	0.50	7,275,839	0.27

(Expressed in U.S. dollars)

9. Share capital (continued)

(b) Share-based compensation

For the three month period ended March 31, 2012, the Company recorded $368,102 (2011 - $389,439) as share-based compensation expense and recorded this amount in share option reserve. The value for the stock options granted during the three month period ended March 31, 2012 was determined using the Black-Scholes option pricing model. The weighted average grant date fair value was C$0.83 (2011 - C$0.45) was calculated using the following weighted average assumptions:

	2012	2011
Risk free interest rate	**1.49%**	2.64%
Expected dividend yield	**Nil**	Nil
Expected option life (years)	**5.00**	5.00
Expected stock price volatility	**91%**	118%
Expected annual forfeiture rate	**5%**	5%

(c) Share purchase warrants

A summary of the changes in share purchase warrants is presented below:

	Number of warrants	Weighted average exercise price
		C$
Balance, January 1, 2011	159,489,599	0.36
Exercised	(53,960,287)	0.33
Expired	(150,000)	0.25
Balance, December 31, 2011	105,379,312	0.38
Exercised	(145,000)	0.47
Balance, March 31, 2012	**105,234,312**	**0.38**

(Expressed in U.S. dollars)

9. Share capital (continued)

(c) Share purchase warrants (continued)

The following table summarizes information about outstanding share purchase warrants at March 31, 2012:

Number of warrants	Exercise price	Expiry date
	C$	
39,419,312	0.33	August 6, 2012
1,000,000	0.20	April 22, 2014
600,000	0.20	July 22, 2014
1,600,000	0.47	October 15, 2014
3,950,000	0.31	November 30, 2014
42,665,000	0.47	November 30, 2014
16,000,000	0.31	November 30, 2014
105,234,312	0.38	

(d) Normal Course Issuer Bid ("NCIB")

In October 2011, the Company entered into an NCIB. The NCIB covers the period of October 17, 2011 to October 16, 2012. Pursuant to the NCIB, the Company was authorized by the TSX to purchase up to 13,501,078 common shares and 1,970,965 common share purchase warrants. Purchases will be made at the discretion of the Company at prevailing market prices, commencing October 17, 2011 and ending October 16, 2012. Pursuant to TSX policies, daily purchases made by the Company will not exceed 53,433 common shares and 6,084 purchase warrants. The shares acquired under the NCIB will be cancelled upon their purchases. The funding for any purchase pursuant to the NCIB will be financed out of working capital of the Company.

Under the NCIB, the Company repurchased 206,000 common shares at an average price of C$0.67 at a cost of $137,072 (C$138,670) during three months ended March 31, 2012. The excess of the purchase price over the average stated value of shares purchased for cancellation of $76,428 was charged to retained earnings. The Company ceases to consider shares outstanding on the date of the Company's purchase of its shares although the actual cancellation of the shares by the transfer agent and registrar occurs on a date shortly thereafter.

10. Finance costs

	2012	2011
	$	$
Interest on Sprott loan and equipment loan	**552,931**	374,452
Accretion of reclamation and site closure costs	**231,988**	23,722
Fair value adjustment on silver contract	**420,529**	586,274
	1,205,448	984,448

(Expressed in U.S. dollars)

11. Derivative financial instruments

The Company enters into certain silver put options and gold put options to hedge commodity price risks. The following table presents the costs and fair value of outstanding derivative financial instruments held by the Company as at March 31, 2012 and December 31, 2011. The Company recorded a fair value measurement loss of $10,857,634 for three months ended March 31, 2012 (March 31, 2011 - $977,700).

		March 31, 2012	
	Maturity period	Cost	Fair value
		$	$
Silver			
50,000 ounces silver put option/month (300,000 ounces in total) at the price of $25 per ounce	July 2012 through to December 2012	910,000	186,950
100,000 ounces silver put option/month (900,000 ounces in total) at the price of $35 per ounce	April 2012 through to December 2012	5,811,000	3,666,400
70,000 ounces silver put option/month (630,000 ounces in total) at the price of $30 per ounce	April 2012 through to December 2012	2,714,250	931,770
Gold			
2,400 ounces gold put option/month (14,400 ounces in total) at the price of $1,400 per ounce	July 2012 through to December 2012	1,764,000	183,413
		11,199,250	4,968,533
Less: Current portion			4,968,533
Non-current portion			-

		December 31, 2011	
	Maturity period	Cost	Fair value
		$	$
Silver			
50,000 ounces silver put option/month (450,000 ounces in total) at the price of $25 per ounce	April 2012 through to December 2012	1,262,500	1,158,200
100,000 ounces silver put option/month (1,200,000 ounces in total) at the price of $35 per ounce	January 2012 through to December 2012	7,344,000	9,916,300
70,000 ounces silver put option/month (840,000 ounces in total) at the price of $30 per ounce	January 2012 through to December 2012	3,358,950	3,771,670
Gold			
2,400 ounces gold put option/month (21,600 ounces in total) at the price of $1,400 per ounce	April 2012 through to December 2012	2,469,600	1,407,598
		14,435,050	16,253,768
Less: Current portion			16,253,768
Non-current portion			-

(Expressed in U.S. dollars)

12. Income per share

The weighted average number of common shares for the purpose of diluted income per share reconciles to the weighted average number of common shares used in the calculation of basic income per share as follows:

	Three months ended March 31, 2012	Three months ended March 31, 2011
Basic weighted average number of shares outstanding	**270,221,988**	216,781,352
Effective of diluted securities		
Stock options	**-**	4,669,915
Warrants	**-**	46,413,103
Diluted weighted average number of shares outstanding	**270,221,988**	267,864,370

For the three months ended March 31, 2012, all outstanding stock options and warrants are excluded from the computation of diluted income per share because they are anti-dilutive.

For the three months ended March 31, 2011, the following lists the equity securities excluded from the computation of diluted income per share. The equity securities were excluded as the exercise prices related to the particular security exceed the average market price of the common shares of the Company of C$0.56 for the period.

	2011
Stock options	3,983,750

(Expressed in U.S. dollars)

13. Segmented information

	Australia	Canada	Chile	Total
	$	$	$	$
Three months ended March 31, 2012				
Revenue	11,282,887	-	9,436,629	20,719,516
Depletion and depreciation	(1,279,590)	(8,135)	(2,784,023)	(4,071,748)
Income (loss) from operations	1,161,247	(1,248,841)	1,781,887	1,694,293
Other income (expense), except for fair value adjustment on Silver Contract and derivative financial instruments	(292,053)	(173,980)	(389,333)	(855,366)
Income (loss) for underlying operations	869,194	(1,422,821)	1,392,554	838,927
Income for underlying operations per share				
Basic				-
Diluted				-
Fair value adjustments				
Gain on derivative financial instrucments (Note 11)	(422,186)	-	(10,435,448)	(10,857,634)
Fair value adjustment on Silver Contract (Note 10)	-	-	(420,529)	(420,529)
Total fair value adjustment	(422,186)	-	(10,855,977)	(11,278,163)
Net income (loss) before income tax	447,008	(1,422,821)	(9,463,423)	(10,439,236)
Deferred tax	-	-	1,518,592	1,518,592
Net income (loss)	447,008	(1,422,821)	(7,944,831)	(8,920,644)
Income (loss) per share				
Basic				(0.03)
Diluted				(0.03)
Expenditures for property, plant and equipment	3,752,536	39,326	6,072,128	9,863,990
Total assets as at March 31, 2012	46,943,557	14,853,902	74,834,108	136,631,567

(Expressed in U.S. dollars)

13. Segmented information (continued)

	Australia	Canada	Chile	Total
	$	$	$	$
Three months ended March 31, 2011				
Revenue	14,292,520	-	2,316,533	16,609,053
Depletion and depreciation	(1,414,771)	(10,127)	(1,461,539)	(2,886,437)
Income (loss) from operations	5,654,641	(1,270,655)	378,037	4,762,023
Other income (expense),				
except for fair value adjustment on Silver Contract				
and derivative financial instruments	(353,935)	(336,656)	(100,218)	(790,809)
Income (loss) for underlying operations	5,300,706	(1,607,311)	277,819	3,971,214
Income (loss) for underlying operations per share				
Basic				0.02
Diluted				0.01
Finance costs				
Loss on derivative financial instrucments	-	-	(977,700)	(977,700)
Finance costs				
Fair value adjustment on Silver Contract	-	-	(586,274)	(586,274)
Total fair value adjustment	-	-	(1,563,974)	(1,563,974)
Net income (loss) before income tax	5,300,706	(1,607,311)	(1,286,155)	2,407,240
Deferred tax	-	-	-	-
Net income (loss)	5,300,706	(1,607,311)	(1,286,155)	2,407,240
Income (loss) per share				
Basic				0.01
Diluted				0.01
Expenditures for property, plant and equipment	2,567,581	174,879	3,358,782	6,101,242
Total assets as at December 31, 2011	42,930,340	5,765,576	90,198,942	138,894,858

For the three months ended March 31, 2012, the Company had three customers, from which it earned more than 10% of its total revenue (2011 - two). Revenue from these customers amounted to $11,282,887, $6,983,967 and $2,452,662 (2011 - $14,292,520 and $2,316,533).

14. Subsequent events

From April 1, 2012 to May 8, 2012, 12,000,000 warrants were exercised at an exercise price of $0.33.